



UNITED STATES SENATE
**REPUBLICAN
POLICY COMMITTEE**

Larry E. Craig, Chairman
Jade West, Staff Director

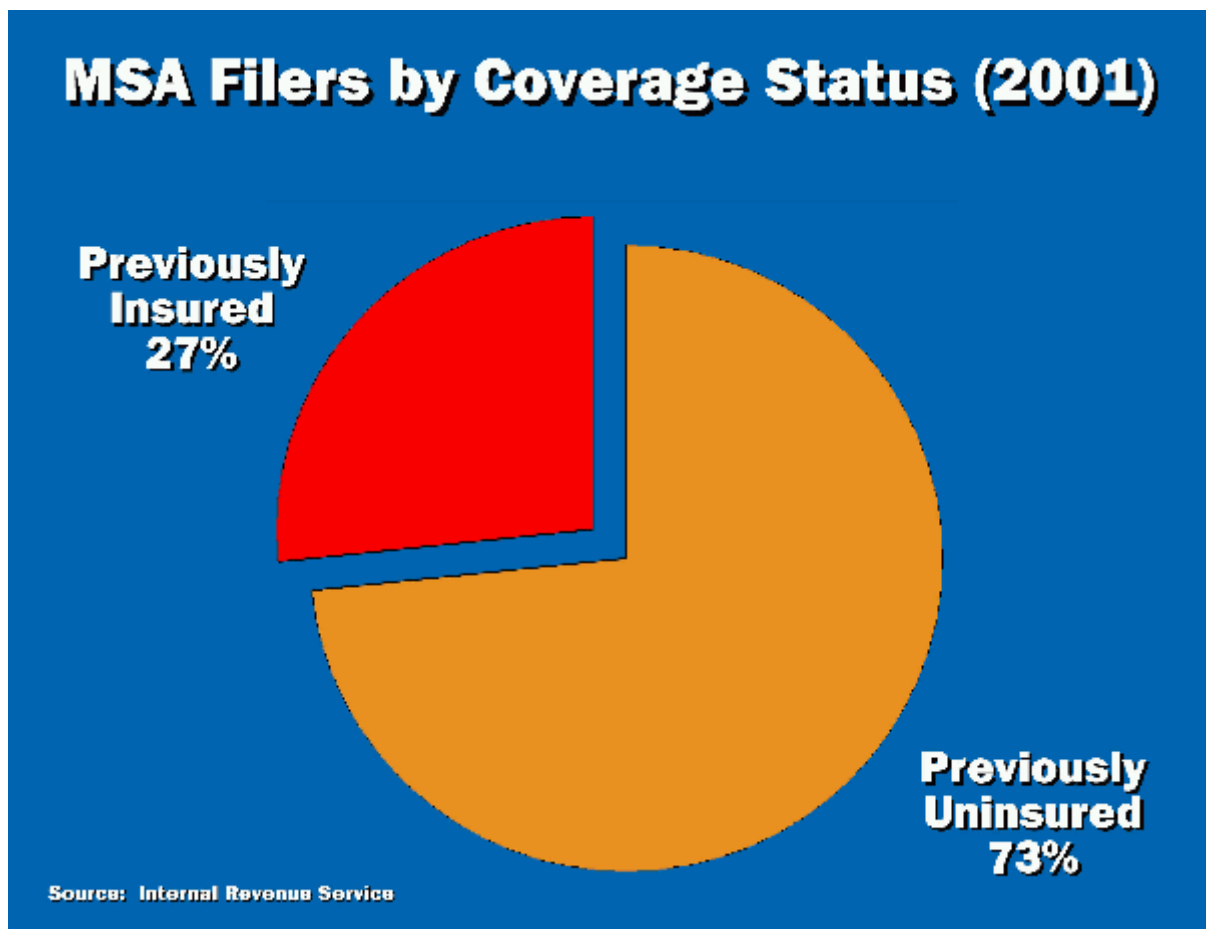
October 8, 2002

Expand MSAs Now

IRS Reports 73% of MSAs Are Purchased by Previously Uninsured

On September 30, the federal government published two significant reports on health insurance coverage in America.

The first revealed that the number of Americans without health insurance is on the rise. The Census Bureau's annual [report](#) on health insurance coverage announced the number of uninsured Americans increased in 2001 by 1.4 million.



In a report that received much less news coverage, the Internal Revenue Service (IRS) released its [count](#) of Archer medical savings accounts (MSAs) for tax year 2001, which found 73 percent of MSAs were purchased by individuals or families who previously had no health insurance. Were it not for MSAs, even more Americans would lack health coverage.

Participants in the federal MSA demonstration program purchase a high-deductible health insurance policy and open a tax-preferred medical savings account. They or their employer make regular, tax-free deposits into the MSA. These funds are used to cover routine medical expenses up to the deductible, while the insurance policy covers expenses above the deductible. Because the MSA belongs to the participant, those who spend less than their deductible in a given year keep the remaining funds, which continue to grow tax-free.

The IRS report is significant because it shows MSAs are the most promising and politically viable solution available to the growing number of uninsured, and because it responds to misguided criticisms launched at MSAs:

- Despite being [hamstrung](#) by a restrictive demonstration program designed to ensure failure, MSAs have proven their popularity with consumers and their ability to make coverage affordable for the uninsured.
- Critics often make the mistake of presuming MSAs would increase premiums for those who don't have an MSA. This presumption fails to account for the fact that MSAs bring people who were previously uninsured into insurance pools – a fact reinforced by the IRS report – thus further spreading risk and lowering premiums. MSAs also control costs by encouraging patients to be wise consumers.

Archer MSAs are the most [cost-effective](#) way Congress has found to cover the uninsured, bringing coverage to at least 62,000 previously uninsured Americans at an estimated cost to the Treasury of \$321 per newly insured person. About 100,000 MSAs have been created. Because many provide family coverage, the number of Americans now covered by MSAs is even larger.

MSAs are popular among individuals and families, Americans of all ages, those with few and those with expensive medical needs, and a broad coalition of economists, small businesses, regulators, and health care professionals. They enjoy bipartisan support in Congress and that of the Bush Administration. They allow patients complete control over their medical decisions – including their choice of doctors. They enable families to meet medical needs during periods of unemployment and financial hardship. They control health insurance premiums by bringing more people into insurance pools, and they help control overall health care costs by turning patients into smarter shoppers. And as the IRS reminds us, Archer MSAs are popular most of all with America's uninsured.

A bipartisan coalition is trying to break Archer MSAs free of the demonstration program's restrictions, which are denying health coverage to potentially millions of Americans. The House has voted to remove these restrictions. The President stands ready to do so. The Senate is within one vote of doing so. Congress should remove those restrictions this year.

RPC Staff Contact: Michael F. Cannon, 224-2946